



Supplemental Payments

Purchasing Power

Inflation can significantly deteriorate a person's ability to maintain a consistent standard of living after retirement. Inflation is generally measured by changes in the average prices of selected goods and services. As inflation rises, the value of money decreases because it purchases fewer goods and services. A decline in the purchasing power of money is another way to define inflation.

The higher the rate of inflation, the greater the drop in the purchasing power of money. For example, if wages remain the same but prices double, the current purchasing power of wages is only 50 percent of the purchasing power of those same wages prior to the price increases. In this situation, wages must double to maintain the same purchasing power.

The California State Teachers' Retirement System measures the purchasing power level of allowances by the change in the All Urban California Consumer Price Index published by the Department of Industrial Relations, Bureau of Labor Statistics. The cumulative change in the CCPI from each year in which benefits have become effective since 1955 is displayed in Attachment A.

2 Percent Simple Benefit Adjustment (Education Code Sections 22140, 22141 and 24402)

The CalSTRS Defined Benefit Program provides an automatic 2 percent simple benefit adjustment to allowances payable to all benefit recipients to provide some protection against the effects of inflation. This annual "benefit improvement factor" is applied September 1 of each year following the first anniversary of the effective date of the benefit.

There are two other sources of funds that provide additional purchasing power protection for CalSTRS benefit recipients through "supplemental benefit payments." These are School Lands Revenue and the Supplemental Benefit Maintenance Account (SBMA). Supplemental benefit payments

are made quarterly from these funds on October 1st, January 1st, April 1st and July 1st. It is important to remember that these payments are not guaranteed and will continue only as long as funds are available.

School Lands Revenue (Education Code Sections 24412 and 24413)

The policy of the state and the Teachers' Retirement Board is to maintain the level of purchasing power of CalSTRS allowances to a minimum of 75 percent of the purchasing power of the initial allowance. To implement this policy, revenue generated from the use of State School Lands (land granted to California by the federal government to support schools) and Lieu Lands (properties purchased with the proceeds from the sale of school lands) during the prior year is transferred to CalSTRS each year for the purpose of providing annual supplemental benefit payments in quarterly installments.

This revenue is distributed on a pro-rata basis to all benefit recipients whose initial allowances have fallen below the 75 percent purchasing power level. Because the revenue from School Lands does not generate enough income to bring the purchasing power of all CalSTRS allowances to at least 75 percent, the available revenue is distributed on a proportional basis to all eligible benefit recipients. The amount of the School Lands payment for each benefit recipient depends on the:

- amount of money available from School Lands that year,
- number of benefit recipients whose allowance purchasing power is below 75 percent, and
- increase in the CCPI

For example, if School Lands revenue is only sufficient to provide 5 percent of the amount needed to bring all allowances up to a minimum of 75 percent of the purchasing power of the initial allowance, each eligible benefit recipient will receive from School Lands revenue 5 percent of the

amount needed to restore their purchasing power to 75 percent.

In 2000-2001, School Lands revenue is providing only 2.1 percent of the amount needed to restore the purchasing power of allowances payable to all benefit recipients to a minimum of 75 percent. Therefore, each eligible benefit recipient receives a supplemental benefit payment paid from School Lands revenue equal to 2.1 percent of the amount necessary to raise the purchasing power of the allowance to 75 percent.

Since School Lands revenue for 2000-2001 is not sufficient to raise the purchasing power of each CalSTRS allowance to a minimum of 75 percent of the purchasing power of the initial allowance, the SBMA is used to increase the purchasing power of each allowance to a minimum of 75 percent of the purchasing power of the initial allowance.

Supplemental Benefit Maintenance Account

An amount equal to 2.5 percent of the prior year covered CalSTRS' member payroll is transferred each year from the State of California General Fund to the Supplemental Benefit Maintenance Account in the Teachers' Retirement Fund. The SBMA provides annual supplemental benefit payments in quarterly installments to all benefit recipients whose purchasing power has fallen below 75 percent of the purchasing power of the initial allowance, as long as funds are available.

Both the School Lands revenue and SBMA provide authority to make supplemental payments sufficient to bring purchasing power up to 75 percent of the purchasing power of the original allowance, and the funding from the General Fund, equal to 2.5 percent of payroll, is guaranteed. The 75 percent level of supplemental payments, however, is not vested. This means that if the combined funding from both sources is not sufficient to bring purchasing power up to the 75 percent level, supplemental allowances may have to be paid at a lower level. However, it is anticipated that the

funding for a 75 percent supplemental payment will be available well into this century.

The amount of the supplemental benefit payment for each benefit recipient depends on:

- the extent to which the benefit recipient's allowance has fallen below 75 percent of the purchasing power of the initial allowance, and
- the amount of the supplemental benefit payment provided from School Lands revenue

Estimation of Supplemental Benefit Payments

A benefit recipient can estimate his or her supplemental benefit payments. It is first necessary to calculate the purchasing power of the current CalSTRS allowance. This may be accomplished by using the following information:

- Initial Allowance (identified by "Initial Date/Allow" on the Remittance Advice/Check stub just below the Social Security Number)
- Benefit Effective Date (identified by "Initial Date/Allow" on the Remittance Advice/Check stub just below the Social Security Number)
- Current Allowance (identified by "Total Gross Allowance" before any deductions for taxes, insurance or receivables), and
- Changes in the California Consumer Price Index (CCPI) is determined by dividing the CCPI for June of 2000 by the CCPI for June of the calendar year of retirement. (See Attachment A to obtain the CCPI factors from 1955-2000.)

Purchasing Power Percentage of the Current Allowance

Example

The example uses the following data to calculate the current purchasing power percentage:

Initial Allowance:	\$1,000
Benefit Effective Date:	July 1, 1975
Current Allowance:	\$1,500
CCPI Factor:	3.346

In this example, the benefit effective year is 1975, and the corresponding CCPI factor is 3.346. Change in CCPI is determined by dividing the CCPI for June of 2000 by the CCPI for June of the calendar year of retirement.

The purchasing power of the current allowance is determined as follows:

A. Obtain the CCPI Factor for the benefit effective year: 3.346

B. Multiply the initial allowance by the CCPI Factor to obtain the Fully Adjusted Allowance. This is what the current allowance amount would be if it had been adjusted to keep pace with inflation since the Benefit Effective Date.

$$\$1,000 \times 3.346 = \$3,346.00$$

C. Divide the Current Allowance by the Fully Adjusted Allowance to calculate the Current Purchasing Power Percentage.

$$\$1,500.00 / \$3,346 = 44.83\%$$

Note: If the Current Purchasing Power Allowance percentage is greater than 75 percent, no supplemental benefit payments will be received.

Total Quarterly Supplemental Payment

The total supplemental payment is determined as follows:

A. Multiply the fully Adjusted Allowance by .75 to calculate the 75 percent Purchasing Power Amount equal to 75 percent of the initial allowance. (Includes both School Lands and SBMA)

$$\$3,346.00 \times .75 = \$2,509.50$$

B. Subtract the Current Allowance from the 75 percent Purchasing Power Amount to determine the Supplemental Monthly Benefit Amount, the monthly payment amount that would be needed to restore the purchasing power allowance to the 75 percent level.

$$\$2,509.50 - \$1,500.00 = \$1,009.50$$

C. Multiply monthly payment amount by three (3) months to determine the Total Quarterly Supplemental Payment.

$$\$1,009.50 \times 3 = \$3,028.50$$

Funding Components of the Supplemental Benefit Payments

The funding components of the Supplemental Payments are the portion from School Lands Revenue and the portion from the SBMA.

A. Supplemental Payment - School Lands Revenue (75 percent Purchasing Power)

The portion of the supplemental payment that is derived from School Lands Revenue is calculated as follows:

In 2000-2001, School Lands revenue is providing only 2.1 percent of the amount needed to restore purchasing power of the allowances payable to all eligible benefit recipients to 75 percent of the purchasing power of the initial allowance. Multiply the Total Quarterly Supplemental Payment by 2.1 percent to calculate the School Lands revenue quarterly component.

$$\$3,028.50 \times 2.1\% (.021) = \$63.60$$

Note: This benefit recipient would receive an amount equal to \$63.60 per quarter from School Lands revenue in 2000-2001. The actual amount payable to each eligible benefit recipient will differ.

B. Supplemental Payment - SBMA (75 percent Purchasing Power)

The portion of the supplemental benefit payment derived from the SBMA is calculated as follows:

Subtract the School Lands quarterly component from the Total Quarterly Supplemental Payment to obtain the quarterly payment amount that would be needed to restore the allowance purchasing power level to 75 percent.

$$\$3,028.50 - \$63.60 = \$2,964.90$$

Estimation Worksheet

Current Allowance Purchasing Power Percentage

1. $\frac{\text{Initial Allowance Monthly Amount}}{\text{CCPI Factor: June of the Benefit Effective Year}} = \text{Fully Adjusted Allowance (a)}$
2. $\frac{\text{Current Allowance Monthly Amount less 75\% to proceed}}{\text{Fully Adjusted Allowance (a)}} = \text{Current Purchasing Power Percentage (Must be than)}$

Total Supplemental Benefit Payment

1. $\frac{\text{Fully Adjusted Allowance (a)}}{.75} = \text{Total Purchasing Power Amount}$
2. $\text{Total Purchasing Power Amount} - \text{Currently Allowance Monthly Amount} = \text{Supplemental Benefit Monthly Amount}$
3. $\frac{\text{Supplemental Benefit Monthly Amount} \times 3}{\text{Number of Months in a Quarter of a Year}} = \text{Total Quarterly Supplemental Payment (b)}$

Funding Components of Supplemental Benefit Payments

School Lands Component (75% Purchasing Power)

Note: The amount available from School Lands to raise purchasing power to 75% in the current year is 1.4%. The percentage available to raise purchasing power to 75% will vary from year to year.

- $$\frac{\text{Total Quarterly Supplemental Payment (b)}}{.021} = \text{School Lands Quarterly Component (c)}$$

SBMA Component (75% Purchasing Power)

- $$\text{Total Quarterly Supplemental Payment (b)} - \text{School Lands Quarterly Component (c)} = \text{SBMA Quarterly Component (d)}$$

**California State Teachers' Retirement System
Supplemental Payments
Factors for Calculating 2000/01 Purchasing Power
All Urban California Consumer Price Index
Attachment A**

Year	June CCPI	Purchasing Power Factor
1955	25.7	6.770
1956	26.2	6.641
1957	27.1	6.421
1958	28.1	6.192
1959	28.5	6.105
1960	29.1	5.979
1961	29.5	5.898
1962	30.0	5.800
1963	30.2	5.762
1964	30.8	5.649
1965	31.6	5.506
1966	32.1	5.421
1967	32.9	5.289
1968	34.3	5.073
1969	36.0	4.833
1970	37.9	4.591
1971	39.4	4.416
1972	40.5	4.296
1973	42.7	4.075
1974	47.1	3.694
1975	52.0	3.346
1976	55.2	3.152
1977	59.5	2.924
1978	64.6	2.693
1979	71.0	2.451
1980	83.3	2.089
1981	90.1	1.931
1982	98.5	1.766
1983	99.1	1.756
1984	103.6	1.680
1985	108.4	1.605
1986	112.2	1.551
1987	116.3	1.496
1988	121.7	1.430
1989	128.2	1.357
1990	134.3	1.296
1991	140.1	1.242
1992	145.2	1.198
1993	148.9	1.169
1994	150.7	1.155
1995	154.2	1.128
1996	156.6	1.111
1997	160.0	1.088
1998	163.6	1.064
1999	167.8	1.037
2000	173.9	1.000

The Purchasing Power Factor is obtained by dividing the CCPI for June of 2000 by the CCPI for June of the calendar year of retirement.



Status of the School Land Bank Fund

(Prepared by State Lands Commission staff in 2000)

Background

Upon achieving statehood, the federal government granted approximately 5.5 million acres of land to California to be used for the support of schools. This land consisted of the sixteenth and thirty-sixth section of each township. Approximately 90 percent of the school lands have been sold. Proceeds were used primarily to pay for school construction. In 1984, the California Legislature directed that school lands be retained and managed by the State Lands Commission to generate revenue to provide cost-of-living increases for retired teachers.

The school lands are difficult to manage because they are broken up into noncontiguous, square-mile parcels. The Legislature found that “consolidation of school land parcels into contiguous holdings is essential to sound and effective management” (Section 8702 of the Public Resources Code). Consequently, the Legislature authorized the State Lands Commission to sell school lands and use the funds from the sales to purchase real property that will generate additional revenues to benefit California’s retired teachers. Proceeds from sales are required to be held in trust by the Commission for the teachers and are deposited in the School Land Bank Fund.

School Land Bank Fund Balance

The SLBF has accumulated over \$34.8 million. The Commission has made limited purchases of land to date for three reasons:

- ◆ The Commission school lands staff is required to respond to the California Desert Protection Act, passed by Congress in 1994 (Public Law 103-433) to set aside and protect areas of natural, cultural and scenic historical importance in the California desert. The CDPA will eventually involve the sale or exchange of 266,000 acres of school lands located in the newly designated desert wilderness area.
- ◆ The SLBF has only recently reached the funding level necessary to acquire property which is appropriately sized for management. Purchase of smaller properties would not fulfill the legislative mandate to consolidate school lands for management efficiency.

◆ Staff continues to believe that having a larger capital base will provide for more flexibility in pursuing a sound investment strategy. Following the passage of the CDPA the strategy to increase the size of the SLBF was discussed and supported by the staff of the State Teachers’ Retirement System and representatives of the California Retired Teachers Association.

Anticipated Growth in SLBF Balance

School lands within the desert wilderness area designated by the CDPA have been valued at approximately \$44 million. As implementation of the CDPA continues to occur, proceeds from the sale of school lands to the federal government will drastically increase the size of the SLBF.

The first two CDPA transactions approved by the Commission brought over \$1.1 million into the SLBF. The third, an innovative land exchange with the federal government, allowed the Commission to obtain a 100 acre parcel in Los Angeles County, which it later sold to the city of Pomona, carrying a note secured by a deed of trust. Payments made by the city on the principal are deposited into the SLBF, while interest payments are transferred to State Teachers’ Retirement System for cost-of-living increases to retired teachers.

To date, the Commission has completed three CDPA land exchange transactions involving 64,000 acres of school lands valued at \$14.3 million. Future transactions will involve both exchanges of school lands for federal property and purchases of school lands by the federal government, leading to further increases in the SLBF balance.

Commission Procedures for SLBF Purchases

As the SLBF balance reaches an amount which will allow the Commission to carry out its legislative mandate to consolidate and improve the overall management of school lands, the Commission intends to proceed expeditiously with land acquisitions using the procedures and criteria previously adopted by the SLC. Land exchanges with the federal government will also assist the Commission in consolidating school lands in desert areas not affected by the CDPA.



Sale of Elk Hills Naval Petroleum Reserve #1

What is Elk Hills?

School lands that were granted by the Federal Government when California entered the Union in 1850.

- ◆ One of three naval petroleum reserves set up by the Government before World War 1.
- ◆ Sits on 47,000 acres located 28 miles west of Bakersfield, California.
- ◆ Produces 60,000 barrels of oil and 390 million cubic feet of natural gas each day.
- ◆ Holds 600 million barrels of oil and 1.9 trillion cubic feet of natural gas in reserve.
- ◆ Chapter 68, Statutes of 1996 (SJR 27, Costa) memorialized the President and the Congress of the U.S. to sell the Elk Hills Naval Petroleum Reserve Number 1 while recognizing the State's valid claim to two school land sections within the Reserve, and to compensate the State's retired teachers for their interest.

What is CalSTRS' interest in Elk Hills?

- ◆ The state of California and federal government had 78 percent interest in this Reserve (school lands), and the remaining 22 percent of the Reserve was owned by Chevron Corporation in San Francisco.
- ◆ CalSTRS sold their 9 percent interest of the net proceeds to benefit California's retired teachers.

What are the terms of the sale?

- ◆ Occidental Petroleum purchased the Reserve October 6, 1997 for \$3.65 billion (an all-cash deal); Occidental will sell their interest in MidCon for \$3 billion, of which \$2 billion will fund the Reserve acquisition. Expenses of the sale are estimated at \$50 million; the deadline for the close of the sale was February 10, 1998, as mandated.
- ◆ A settlement agreement was reached between California, the U.S. Department of Energy and Occidental Petroleum to ensure the State's interests are properly protected in the event Congress fails

to appropriate all installments due to the State, which would result in the state renouncing its 9 percent settlement with DOE and suing Occidental Petroleum for the state's claim.

◆ This agreement was subject to:

- A Justice Department antitrust review
- Completion of the environmental impact assessment process
- A 31-day Congressional review period

The State should receive, in each of the Federal Government's fiscal years, or FFY, the 1st through September 30th, approximately \$320 million payable to the Teachers' Retirement Fund in seven annual installments under the terms of the settlement (due by the later of the 180th day of the fiscal year or 60 days after the funds are appropriated by Congress and become available) between the state and DOE as follows:

<i>FFY</i>	<i>AMOUNT</i>
1999	\$36 million (paid)
2000	\$36 million (paid)
2001	\$36 million (appropriated)
2002	\$36 million
2003	\$36 million
2004	\$72 million
2005	\$72 million

The \$324 million has been set aside in an escrow account for California as Congress directed.

CalSTRS role is to:

- ensure that these appropriations for the settlement payments are included in the President's budget that he submits to Congress in January of each year prior to the year that the payments are due (the Secretary of Energy, is contractually obligated to request this from the President);

and

- pursue efforts to gain attention from members of the House Appropriations Committee to strongly push to ensure that the appropriation

for the annual installments of the state's compensation claim moves through the House and Senate.

How does the sale benefit retired teachers?

As directed by the California Legislature, school lands revenue supports "purchasing power" protection for retired teachers. The increase in school land revenue attributable to the sale of the reserve permitted an increase in purchasing power protection. This increase was authorized in Chapter 939, Statutes of 1997 (SB 1026, Schiff), which provides purchasing power protection of up to 75 percent of a retired member's purchasing power from the 2.5 percent annual General Fund contribution for as long as it could support that level of funding.

What is the current status of the sales proceeds?

The federal government has collected the \$3.65 billion sales proceeds from Occidental and stands to save an estimated \$84 million (direct operational savings that have simply evaporated from the budget baseline) in FY 1999. The Defense Authorization Act requires that 9 percent of the sales proceeds be held in an escrow account for use in paying the State's claim. However, from Congress' standpoint, the compensation payment is being treated as a new spending program that must compete for funds along with other existing programs. The agreed upon funding was approved for the 2001 fiscal year in the FY 2001 interim appropriations legislation which provided funding for the third \$36 million Elk Hills installment, due October 21, 2001. With this third installment, CalSTRS will have collected \$108 million of the \$320 million due to CalSTRS.